Investment opportunities in the Ethiopian

Legumes sub-sector

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Major trends in the development of the legumes sub-sector

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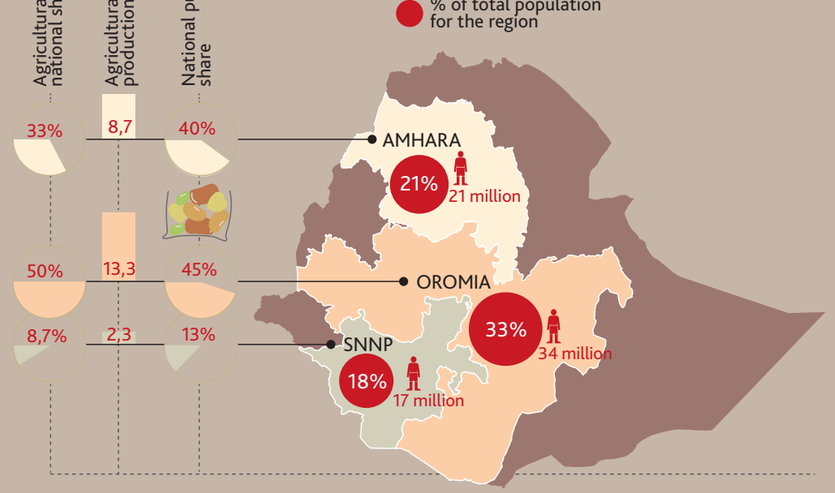
1.1 Ethiopia in brief

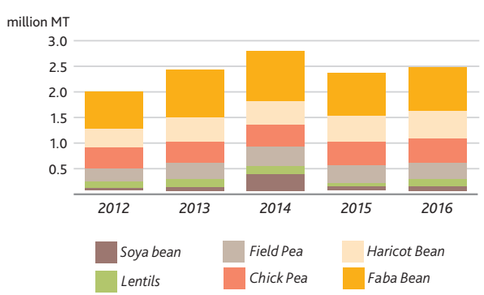
Ethiopia is the second most populous country in Africa with a total population of over 100 million. Agriculture accounts for 39% of the national GDP and 80% of national employment. The Ethiopian agricultural sector is made up of predominantly smallholder farmers. According to CSA (2015/16) the country had close to 12.5 million ha land covered by grain production, with Oromia, Amhara and SNNPR accounting for close to 90%. From the total stock of agricultural production, cereals, pulses and oilseeds account for 87%, 10.5% and 2%, respectively.



1.1 Pulses in Ethiopia

Pulses are important food and cash crops in Ethiopia. The country produces close to 2.80 million MT of pulses per year with an estimated annual value of US$ 2 billion. They account for 10% and 13% of the national annual production and coverage, respectively by smallholder farmers. Though inconsistent, the volume of pulse production has increased by over 400,000 MT between 2012 and 2017. The increase is attributed to both increased area coverage as well as improved yield/ ha. Faba bean, chickpea and haricot bean are the most prominent pulses, accounting for over 78% of the total pulse production. On the other hand, mung bean and soybean are fast emerging pulses, particularly in the lowland areas with quadruple and doubling production growths between 2012 and 2017. Oromia and Amhara regions are the leading producers of pulses accounting for over 85% of the national pulse production, while the SNNPR region accounts for 13%.

Production trend for major pulses

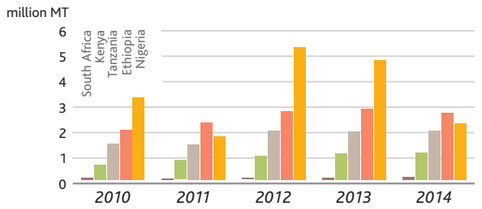


Legume producing regions

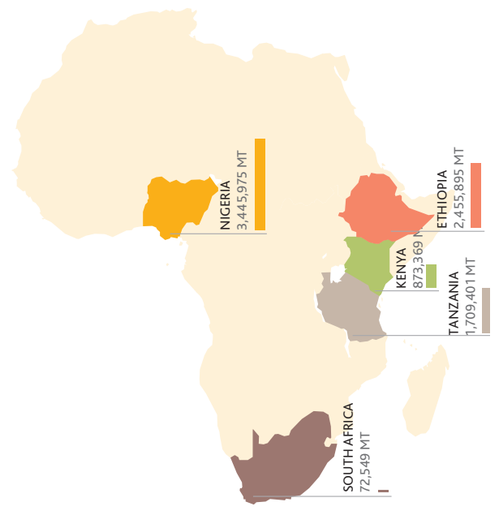
1.2 Ethiopia Pulse Position in Africa

Ethiopia is the third largest crop producer in Africa. According to COMTRADE (2015), the country is the 13th largest exporter of pulses in the world and the second leading in Africa only after Nigeria. It is the top producer of faba bean, chickpea, field pea, grass pea and lentils within the continent and among the top 10 producers in the world. Ethiopia grows over 12 types of pulses ranging from conventional pulses, such as faba bean and chickpea, to the recently emerging ones such as mung bean.

Top 5 pulse-producing African countries



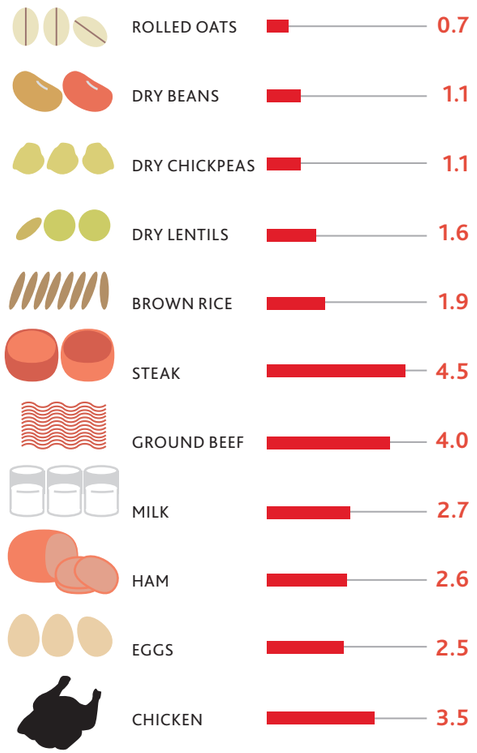
Africa pulse production map



1.3 Household Consumption and Nutrition

The majority of the Ethiopian population lacks access to expensive animal protein sources such as eggs, milk and meat. This, added to the fact that during the annual fasting period, more than 45 million people abstain from animal food sources for nearly 200 days, means that household utilization of pulses plays an invaluable role in improving nutrition. Pulses are the most cost-effective source of protein that accounts for approximately 15% of protein intake (IFPRI, 2010). According to FAO (2016), pulses are also rich in complex carbohydrates, micronutrients, protein and B-vitamins, which are vital to a healthy diet and high energy. For example, WFP's 'super cereal', used a lot in emergency relief, consists of maize, soybean and chickpea, and is very high in both energy (380 kcal/100 g) and protein (at least 14%) (WFP, 2013).

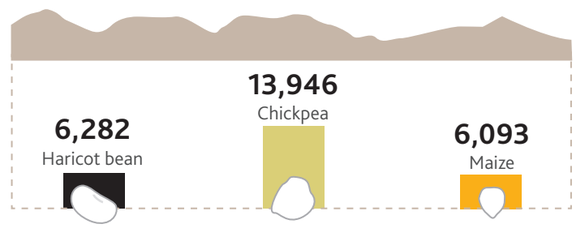
Cents per gram/protein. Source: https://plenteousveg.com/cost-vegan-protein-vs-animal-protein/



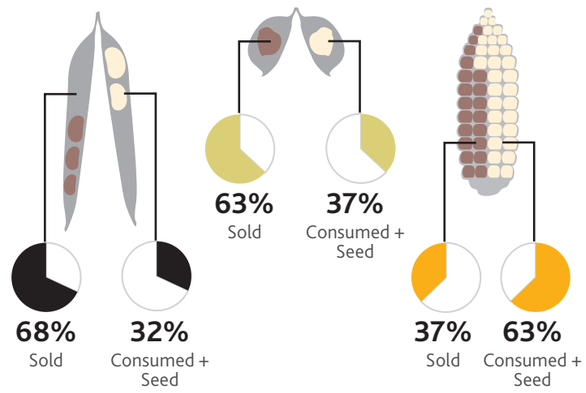
1.4 Source of Income

Pulses are important cash crops for farmers. A study conducted by IVCD (2014) indicated that pulses have higher returns per ha compared to most cereals, namely maize, wheat and barley. Another study by UoS (2017) indicated that 40% of the pulses is consumed by farm households, around 50% is marketed to the regional and central markets, while 10% is reserved as seed for the next season. Pulses are critical cash crops serving the highest cash needs of the household such as sending children to school and paying input loans.

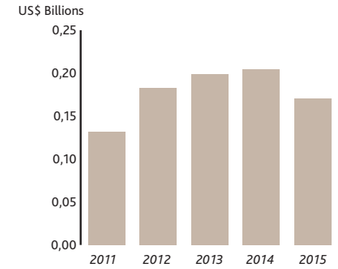
Profit margin per ha



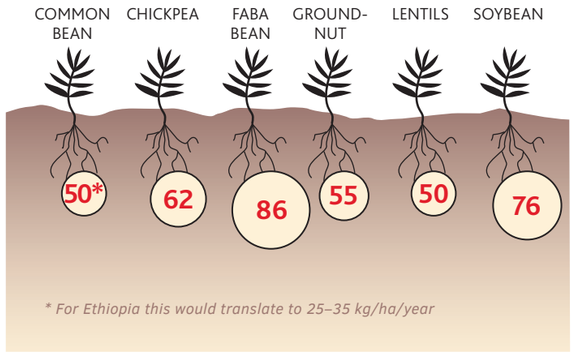
Crop utilization, 2014



Pulse export value trend



Nitrogen fixation capacity of some selected legumes (In kg/ha/year)



** For Ethiopia this would translate to 25–35 kg/ha/year*

1.5 Source of Foreign Currency

Ethiopia generated US$ 194 million from the export of pulses in 2015. Pulses are the third-largest export crop after coffee and oilseed. The most prominent export pulses are haricot bean ($116 million), chickpea. ($25 million) and faba bean ($26 million). Looking at the export trend for the previous five years, pulse exports have shown an average annual growth of 20%. The three major export destinations for Ethiopian pulses are Pakistan, United Arab Emirates and India.

1.6 Improved Soil Health

Pulses have been grown as important rotational crops to improve soil fertility. They are biological nitrogen fixers resulting in the creation of a symbiosis between the plant roots and soil bacteria (Giller and Wilson, 1991, cited in FAO, 2016). Biological nitrogen fixation provides approximately 100 million metric tonnes of nitrogen (N), which leads to an annual saving of around US$10 billion on N fertilizer (Graham, 2008; Howieson et al., 2008). In turn, the fast growth of legumes can improve the soil-protective land cover (protecting the soil from wind and water erosion) and help to break pest, disease and weed cycles in cereal cropping systems (CGIAR, 2012). Table 4 gives an overview of the nitrogen fixation capacity of a number of selected legumes. Ethiopian farmers have long adopted pulses as important rotational crops after cereals and vegetables.

1.7 Increased Farm Intensity and Reduced Risk

In addition to nitrogen fixation, some pulses have demonstrated great resilience in drought and harsh weather, implying reduced risk for smallholder farmers. Legumes often take up a special position in the farming system as an intercrop or second crop, increasing the cropping intensity. Especially chickpea and grass pea are known for utilizing the residual soil moisture that remains after the main cropping season and still producing a regular yield.

Investment opportunities

2

2.1 Agri-Input

The total area for legume farming is estimated to be 1.9 million hectares. Of this, 97% is covered by smallholder farmers. Commercial legume farming is emerging in western and north-western parts of the country, namely Gambela, Benishangul, Western Oromia and Amhara regions. Most of the commercial farms deal with mung bean and soybean. For both smallholders and commercial farmers, weed and disease are major problems. As such, companies could potentially consider herbicides and pesticides for pulses as potential business opportunities. Among others, focus on selective post-emergence weed killers is more promising. Some of the existing products in the market for weed control are Dual Gold, Strong Arm and non-selective killers such as 24D. However, the supply of these herbicides is very limited. Taking the total acreage and assuming 1 kg herbicide and pesticide per hectare, the total market can be estimated at up to 1.8 million kg.

2.2 Farm Equipment

Farming in general, and legume farming in particular, is hardly mechanized in Ethiopia. Three different farm equipment can be noted as potential business opportunities: tractors, sprayers and harvesters. Both tractor farming and combine harvesting are limited to commercial farmers in the western parts of the country and pocket areas in Arsi and Bale highlands. Recently, there has been a policy push for mechanization by different parties within the agricultural community. A few companies have started assembling tractors in the country, but the market prefers the big brands such as John Deer, Massy Fergusson and New Holland. In addition to the big horse-power tractors, simple walking tractors which are durable and affordable, could make a sound business case among smallholder farmers. It is important to note that Ethiopian soil is mostly black cotton soil and often demands durable machinery, though many parts of the rift valley and western parts of the country have light soil. In addition to selling, leasing machinery and equipment is another opportunity.

Commercial farmers use manual harvesting and threshing for pulses. The demand for small- and medium-sized harvesting and threshing technologies is high, both at smallholder and commercial farming levels. Products like soybean, mung bean, faba bean and haricot suffer from shattering i.e. harvesting and threshing loss is estimated at 15%. Technological options for harvesting and threshing would certainly create value for farmers. In Arsi and Bale, wheat dominance has been a major issue because of mechanization, whereby the existing combine harvest is not suitable for pulses, and despite the huge potential of the area for pulses, wheat mono-cropping has dominated for the last two decades.

2.3 Farm Production of Legumes

Currently commercial farming of legumes is limited to a few crops such as mung bean, soybean and, to some extent, chickpea. Even these crops are produced as rotational crops with sesame and rice. Among others, potential opportunities for commercial legume farmers are few: irrigated farming for fresh export, organic farming and mixed farming.

Ethiopia exported US$ 2.2 million worth of fresh beans and peas mainly to the EU and Middle East markets. Products like field pea, snow peas, and green beans, have a big potential market in the EU and Middle East markets. Currently, a few companies like Durablis, Almeta, Upper Awash and Africa Juice are engaged in the production and export of fresh beans and peas. Most of these companies are located in the horticulture belts of the country. The domestic market for fresh beans and peas is also promising, but with the exception of green beans, hardly any other legume has penetrated the mainstream Ethiopian menu. However there is still significant consumption of faba beans, chickpea and field pea.

Organic and non-GMO farming of pulses is another opportunity which can be considered in western and north-western parts of the country. These areas have vast fertile land suitable for a range of lowland and mid-land pulses, as well as oilseed crops such as sesame. Several domestic and international companies have established farms in these areas. However, most of these farms are not utilizing their potential fully, partly due to limited capacity to inject the minimum capital requirements, and to limited experience in managing commercial farming and agriculture. Furthermore, large-scale commercial farming has been politicized by a number of lobby groups in relation to land grabbing and companies have been advised to do a thorough analysis before stepping into such ventures.

2.4 Machinery for Community and Household Processing

Pulses provide a wide range of opportunities for improving household food and nutrition security. The majority of the population in Ethiopia does not have access to expensive animal protein sources such as eggs, milk and meat, while child and maternal malnutrition are among the highest in the world. This, added to the fact that more than 40 million people in Ethiopia avoid eating animal protein for nearly 200 days a year during the fasting season, means that domestic consumption of soybeans has great potential. As it stands most pulses are well integrated in Ethiopian household menus (shiro, kike and mitin are some of the popular ones), while others like soybean and mung bean are not as well known. A number of soy and mung bean food products can be integrated into the Ethiopian diet. Important business opportunities exist in the supply of household and/or community processing equipment such as machines for milling, soaking and grinding.

2.5 Quality Control

The EU market is an important destination for Ethiopian pulse products. However, meeting the EU's requirements for Maximum Residual Level, aflatoxin and other quality-related requirements is often difficult for Ethiopian exporters. Sometimes products are returned after they reach the port of destination. Recently, the EU has made it clear that Ethiopia should place proper control mechanisms, otherwise all imports from the country could be banned. The major challenge in meeting the EU quality requirements is the lack of proper testing facilities, and more importantly, the lack of accreditation for existing laboratories. Currently, there are only two public labs and one private food lab providing these services, but they are not certified for many tests. As such, exporters send samples for testing overseas but often risk shipment defaults and delays. A possible business opportunity for EU service providers is to facilitate accreditation for the existing labs and/or provide inhouse advisory services for bigger companies like ACOS Ethiopia.

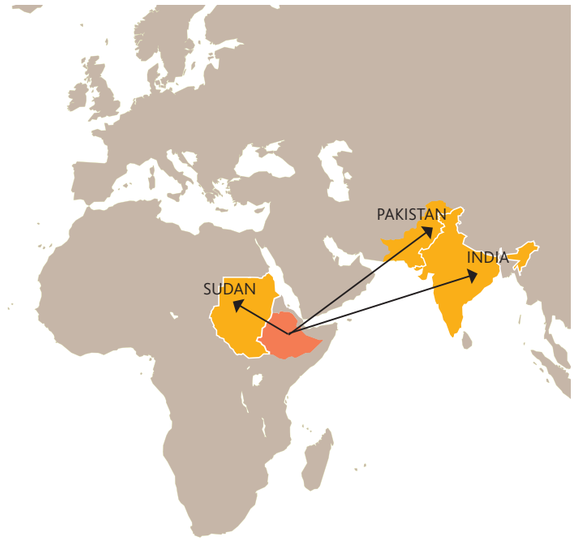
In addition to quality issues, other potential business opportunities for service providers in the Ethiopian pulse sector exist in the areas of food fortification and technical services in good manufacturing practices. However, Ethiopian companies have limited financial capacity and so the cost of such services could present a potential bottleneck. Sometimes these types of services are financed by international NGOs and Projects.

2.6 Import/Export

Legumes are the fourth most important export product for Ethiopia. As stated earlier the country exported 284,000 MT over the last five years. The major export pulses from Ethiopia are haricot bean, chickpea and, recently, green beans. However, Ethiopia grows nearly all major pulses: faba bean, field pea, lentils and soybean. The top three destinations for Ethiopian pulses are Sudan, Pakistan and India. Companies like ACOS have good, standard cleaning facilities with an installed capacity of up to 30,000 MT. Generally, Ethiopia offers pulses of reasonable quality but challenges remain in relation to regulatory frameworks and laboratory infrastructure for maximum residual limit, methane bromite and aflatoxin. The Ethiopian Government has recently been active in putting regulatory frameworks in place.

It is important to note that in 2008/09, the Ethiopian Commodity Exchange (ECX) was established with the objective of institutionalizing commodity trade for coffee, sesame and white pea. Recently, other legumes have also been included in the ECX system, namely mung bean and red kidney bean. For these commodities, it is now mandatory to trade them through the ECX, unless companies get a special license from the Ministry of Trade, as in the case of investor farmers. The ECX has established its outlets at major legume-production areas to which farmers and cooperatives directly provide their product. First-stage transactions also take place at these outlets. The raw legumes collected at these outlets are then supplied via licensed providers to the ECX market, from where legume processors and exporters buy.

The top three export destinations for Ethiopian pulses



2.7 Product for Human Consumption

2.7.1 Nutritious Food Processing

This chain refers to agro-processing companies such as Faffa, Guts, Hilina, Abay, and East African Tigers Brand which use pulses as partial or main ingredient in the processing of baby food, Famex, snacks, flour, and other food products. Formula baby foods, such as Cerifam and Super mom, contain an average of 20% pulses (mostly chickpea and/or soybean). Famex products, mostly supplied to drought-prone areas through the WFP or NDRM, also use 15–20% pulses as the major protein source. Evidence from the processors indicated that the most prominent pulses used in baby food formula, as well as Famex, are chickpea and soybean. The two are often used exclusively. The nutritious food industry is currently absorbing an estimated amount of 15% of pulses produced in the country. This is expected to increase with greater national investment in light agro-industrial processing.

Three major opportunities can be noted in pulse processing: baby food, mixed flour and snacks. There are very few baby-food processors (Faffa and Guts) and the majority of the high-end market is satisfied by imported brands. Besides the Ethiopian market, companies can also target the bigger regional markets including the Middle East. Mixed flour is an important opportunity but it needs sound market development. Until recently, Corn Soy Blend has solely been supplied to the relief and drought industry, whereas the bakery and confectionery industry is fully dominated by whole wheat products. The prospect for this product is good in emerging nutrition-conscious communities. Moreover, sustainable institutional sales, such as to national school feeding programs, present promising opportunities. Pulse-based snacks are another area of opportunity particularly for local companies. A number of successful companies (Baltinas) have emerged in this business. Besides local consumers, other viable opportunities include the airline industry and export of high-quality snacks to regional markets.

2.7.2 Household Food Ingredients

This refers to pulses, spices and other food ingredients made for home consumption and targeting urban and semi-urban middle-class consumers i.e. baltina processing. Baltinas produce split (kike), powder (shiro), processed hot pepper (berbere) and mitin (mixes). They also produce packed, roasted pulse powders for babies and lactating mothers. Baltinas are mostly (over 90%) women-run enterprises (individual or group). They have become an industry that includes both household businesses and larger companies, spreading from rural towns to the major cities. The baltina chain absorbs over 20% of the pulse production within the country.

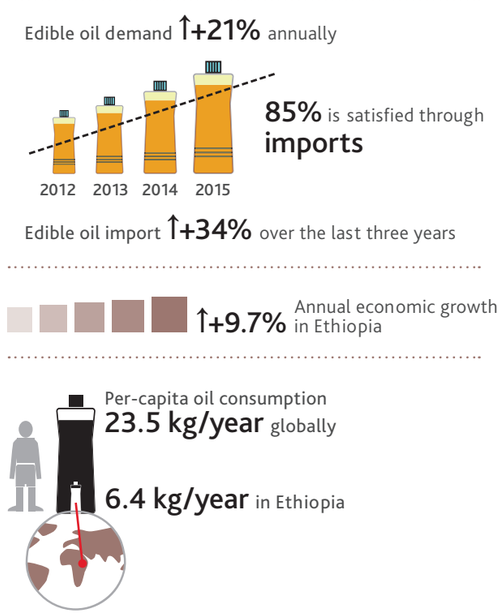
The baltinas will remain a major surge in the coming years, as more and more of the urban and semi-urban population switches from home-made food ingredients to off-the-shelf products. However, the baltina processing enterprises (small and large) have several constraints undermining their scale and quality of operation. The current processing practice is highly traditional, where women manually sort, roast, clean and pack the products. The milling machines are outdated hammer mills which are often not easily accessible for most women. As such, low-cost and cottage-level technological innovations such as electrical sorting, roasting, splitting, milling and washing and cleaning machines would be of high value.

2.7.3 Premixes

Food fortification has been at the center of policy and regulatory discussion over the last five years. Currently only iodine fortification for salt is mandatory, but companies fortify baby food and edible oils mainly for vitamin A and Zink. Recently, the Ethiopian government has drafted a new document that will make flour and edible oil fortification mandatory. In addition to human food, fortification of premixes is needed in the animal feed industry. The major opportunities for companies are in Multi-Vitamin and Zink premixes which are the most important micro-nutrients needed.

2.7.4 Edible Oils

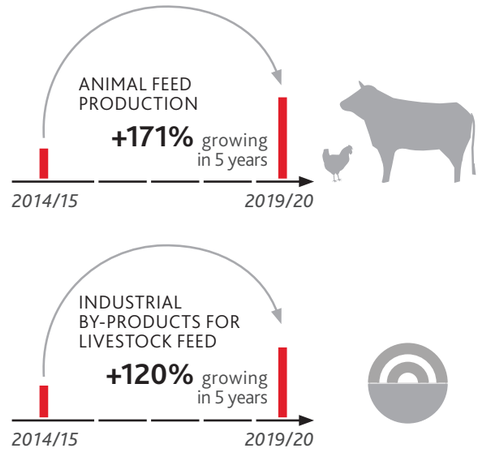
The total annual expenditure and volume of edible oil consumption is estimated to be 12 billion Birr and 483 million kg, respectively. The industry has shown a steady growth of 21% CAGR (Cumulative Annual Growth Rate) over the period from 2012 to 2015. Nearly 85% of current edible oil demand is satisfied by imported oil, and the growth trend in imports is 34% over the last three years. Despite the steady growth, current per-capita consumption (6.4 kg/year) remains far lower than the global average (23.5 kg/year). The low per-capita oil consumption, added to the rapid economic growth and population increase (9.7% and 2.3% per year respectively), shows that the industry has a favorable outlook for demand growth over the medium- to long-term. Palm, noug, cotton, groundnut and linseed oils are the most consumed oils, with estimated respective shares of 75%, 10%, 5% and 3%. Palm, soybean and sunflower oils are the major imported oils. Health Care Food Manufacturers PLC and Alema Edible Oil factories are the two major soybean oil processors in Ethiopia. The price per liter of imported soybean oil is US$ 5 while the one processed in Ethiopia is close to US$ 3.5.



2.8 Feed Processing

The second Growth and Transformation Plan (GTP) states that animal feed production will increase from 68 million tons in 2014/15 to 184 million tons by 2019/20, and that livestock feed from industrial by-products (concentrate and non-concentrate) will increase from 1.5 million tons in 2014/15 to 3.3 million tons by 2019/20. Looking at the fast emergence of urban and semi-urban agriculture in dairy, fattening and poultry sectors, as well as on-going depletion of grazing land in the rural areas, the prospect for the Ethiopian feed industry seems strongly positive. In addition to the domestic market, Ethiopia is well-positioned to serve the approximately $2.9 billion animal feed imports market in North Africa and East Africa. Egypt, Morocco, and Algeria alone comprise 79% of this market, presenting particularly promising target markets. European markets are the main suppliers of meal for animal feed for Morocco and Algeria. Morocco imports feed from Spain, while Belgium is the main supplier for Algeria. Ethiopia has all the major ingredients for concentrate feed: maize, soybean and oil cake. There are currently 15 concentrate feed producers in the country and most are located around Addis Ababa, Adama and Debrezeit.

States of GTP II. for feed processing in Ethiopia



Investment climate

3

Socio-Demographic

Ethiopia is the second most populous country in Sub-Saharan Africa with over 100 million people. More than 55% of the population is within the economically active age group, while 42% is below the age of 14. Ethiopians are hospitable, welcoming and very proud people. They are respectful and positive and value good neighborly relations and harmony. People with different religions, as well as different nationalities and ethnic backgrounds, have lived and still live together with mutual respect. Amharic is the working language of the federal government and is spoken by the majority of Ethiopians, but Afan Oromo is also spoken by over 40% of the population.

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Governance and stability

Ethiopia is generally peaceful and home to many international businesses and diplomatic missions. However, there have been public protests over the last two years, mostly due to lack of good governance, and the government is responding with a wide range of reforms. In general, Ethiopia is a stable country in Africa. It has been ranked 109th out of 138 countries by the World Economic Forum for overall competitiveness (Global Competitiveness Report, 2016-2017).

Economy

The country has been one of the top destinations of Foreign Direct Investment (FDI) in Africa; attracting US$ 8.6 billion FDI between 2010–2015. Ethiopia has the largest economy in East Africa and the 8th largest in Sub-Saharan Africa, with GDP estimated at US$ 72.3 billion as of 2015. Average economic growth for the last ten years is around 10.6%. Agriculture, industry and services have respective shares of 39%, 15% and 46%. Ethiopia has a total area of 112 million hectares of which about 15% is arable. Ethiopia's trade balance seems less healthy than its economic growth, with around US$ 500–600 million of exports every quarter in the past three years, but around US$ 4 billion of imports every quarter in the same period. This very significant trade deficit is financed to a large extent by foreign remittances and loans.

Trasport and logistics

Ethiopia has a road network of 110,000 km, 670 km of railway and is served by 20 domestic airports. If things go as planned, the country will have 220,000 km road network, 3411 km railway and 25 airports by 2019/20. An expressway along the important Addis Ababa–Adama corridor has been open since 2015 and another important corridor is currently being constructed between Modjo and Hawassa . Transport costs to and from port is estimated to be US$ 1800 per 40' container, but this will be reduced to less than US$ 700 when the Ethio-Djibouti rail road is functional.

Telecommunication

Mobile phone is the primary medium of communication. Internet access is available in major cities and towns. Ethiopia has a total of 38 million mobile subscribers. 3G mobile internet is available in many parts of the country, but it is to be noted that the telecommunication service is intermittent and generally of lower quality compared to many Africa countries. The cost of mobile subscription is about US$ 5, while the airtime for local calls is about US$ 0.036 at peak hours; the cost of international calls varies from US$ 0.35–1 per minute. The fee for monthly unlimited broadband internet with 4 Mb is around US$ 300 per month, although smaller 4G-data packages are also available.

Electricity

Ethiopia pursues a green economic development strategy and aims to be the power hub of Africa. The country produces 4180 MW of electricity and this is expected to reach 17,208 MW by 2019/20. Renewable energy sources, namely hydro power, wind and geothermal, are the principal sources of the national power supply. The "Low Volt Time of Day" tariff is applied to manufacturing plants in mineral, food, beverage, textile, agriculture, wood, chemical and plastic industries. The cost of electricity per kilowatt per hour is less than US$ 0.03, one of the lowest in Africa. Nevertheless, it is important to keep in mind that there are problems such as power cuts at peak seasons and damage to transmission lines. Another major challenge is getting a transformer from Ethiopian Electric Power Corporation.

Manpower

Ethiopia has 35 universities and 1329 technical and vocational schools. A total of 0.650 million students were enrolled at universities and technical and vocational schools as of 2015. According to the World Economic Forum Competitiveness index for the labor market, Ethiopia is ranked 70th among 138 countries.

Industrial parks

Ethiopia is currently constructing seven industrial parks and six light agro-processing centers. Within each of the industrial parks a one-stop-shop investment and trade service that includes license renewal, tax, customs clearing and forwarding can be arranged. Businesses that complement each other are also clustered together. Transport, telecommunication and power infrastructure within the industrial parks is more reliable. It should be noted that the Ethiopian government uses a cluster approach for its industrial parks, and not all of them are eligible for agri-processing. For now, Adama, Dire Dawa, Kombolcha, and Mekelle Industrial parks will have agro-processing units. Kombolcha and Mekele Industrial Parks have been launched this year.

Points to note

1/ Ethiopia has been stable for the last two decades and achieved sound economic and social growth. However; there have been protests in many parts of the country and in some cases private investments have been affected by these protests. However, the Ethiopian Government has promised to provide insurance and pledged to undertake deep reform that will sustainably address the demand of the public and restore the trust from the investment community.

2/ In some cases, decisions particularly in relation to land acquisition, tax and customs, might take time. Though efforts are being made to improve the caliber of people within government offices, there is still a tendency for over-consulting and non-accountability in decision-making.

Tax types and structures

Tax name	Explanation	Tax range
Corporate income tax	tax on profit	30%
Income tax	payable on monthly incomes, progressive	up to 35%
Withholding tax	payable on imports at 3% of cost, insurance and freight	2%
VAT/Turnover tax		10–15%
Dividend tax	payable only on dividend paid out	10%
Royalty tax	only for companies who have remittances for royalties, payable on the net amount to be remitted	5%

+ Starting from 2012, export of unfinished leather is subject to 150% tax though Ethiopia doesn't have export tax

Security of investment

Ethiopia is a signatory to the main international investment codes. For example, it is a member of the Multilateral Investment Guarantee Agency (MIGA). It is also a signatory to the Convention on the Settlement of Investment disputes between States and Nationals of other States. Addis Ababa is the seat of the African Union and has a large number of international people. According to World Investment Report 2014, Ethiopia was the third largest recipient of foreign direct investment (FDI) in Africa in 2013, with a 240% increase from the amount in 2012. However, it should be noted that following the protests, FDI inflow has decreased though the situation has recently improved after the government took some steps towards the reform it promised.

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Investment incentives

4

Duty-Free import of Capital Goods

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following customs duty exemptions are provided for investors (both domestic and foreign) engaged in eligible new enterprises or expansion projects such as manufacturing, agriculture, agro-industries, generation, transmission and supply of electrical energy, information and communication technology etc.

- 100% exemption from the payment of customs duties and other taxes levied on imports is granted to all capital goods, such as plant, machinery and equipment and construction materials;
- Spare parts worth up to 15% of the total value of the imported investment capital goods, provided that the goods are also exempt from the payment of customs duties;
- An investor granted with a customs duty exemption will be allowed to import spare parts duty free within five years from the date of commissioning a project;
- An investor entitled to a duty-free privilege buys capital goods or construction materials from local manufacturing industries shall be refunded customs duty paid for raw materials or components used as inputs for the production of goods;
- Investment capital goods imported without the payment of custom duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges;
- Any investor who exports or supplies to an exporter gets at least 60% of income tax exemption for two years in addition to the exemption privilege.

Duty-Free import of Motor Vehicles

Total or partial exemption of motor vehicles from customs duties is determined by the type and nature of investment projects, such as the amount of capital invested. Investors are advised to consult Ethiopian Investment Commission desks for further information before taking a decision.

Income Tax Holidays

Investors engaged in farming and agro-processing are exempted from profit tax for 4–5 years depending on the type of investment and location. An investor who expands or upgrades his existing enterprise and increases its production or service capacity by at least 50%, or introduces a new production or service line by at least 100% of an existing enterprise, is entitled to the income tax exemption period specified in the first scenario above. Investors who export at least 60% of their products or services, or supply these to an exporter, will be exempted from the payment of income tax for an additional 2 years.

Loss Carry Over

Business enterprises that suffer losses during the income-tax exemption period can carry forward such losses, following the expiry of the exemption period, for half of the tax exemption period. For the purpose of calculating a period of loss carry-forward, a half-year period shall be considered as a full income-tax period. Any loss during the income-tax exemption period is not allowed to be carried forward for more than five income-tax periods.

Export Incentives

- With the exception of few products (e.g. semi-processed hides and skins), no export tax is levied on export products from Ethiopia;
- Duty Drawback Scheme: This offers investors an exemption from the payment of customs duties and other taxes levied on imported and locally-purchased raw materials used in the production of export goods. Duties and other taxes paid are drawn back 100% at the time of the export of the finished goods;
- Voucher Scheme: A voucher is a printed document with monetary value, which is used in lieu of duties and taxes payable on imported raw materials. The beneficiaries of the voucher scheme are also exporters and Bonded Manufacturing Warehouse Schemes;
- Exporters are allowed to retain and deposit in a bank account up to 20% of their foreign exchange export earnings for future use in the operation of their enterprises and no export price control is imposed by the National Bank of Ethiopia;
- Franco valuta import of raw materials are allowed for enterprises engaged in export processing;
- Exporters can benefit from the export credit guarantee scheme which is presently in place to ensure an exporter receives payment for goods shipped overseas in the event the customer defaults, reducing the exporters' business risk and allowing it to keep prices competitive.

Capital Remittance

A foreign investor has the right to make the following remittances out of Ethiopia in convertible foreign currency:

- profits and dividends;
- principals and interest payments on external loans;
- payments related to technology transfer agreements;
- payments related to collaboration agreements;
- proceeds from the sale or liquidation of an enterprise.

Access to Finance

Investors targeting export-oriented agriculture and all agro-processing sectors can get access up to 70% of finance from the Development Bank of Ethiopia and other commercial banks upon presenting a viable project proposal.

Competitive Land Lease Price

Land ownership is exclusively vested in the State and the people and shall not be subject to sale or other means of exchange. Private investors and any organizations however, have the right to use land on a lease or rental basis. The lease period for urban land ranges between 30 and 99 years while that of rural land is between 20–45 years based on the type, magnitude, and location of the project. Land lease prices differ depending on the type of investment, location and classification between urban and rural land. Rental prices of rural land for agriculture ranges from US$ 7 to US$ 3.5 per hectare per year.

Incentives Related to Industrial Parks

The Government of Ethiopia has provided more incentive packages for companies domiciled within the industrial parks. For more information, refer to http://www.investethiopia.gov.et/investment-opportunities/strategic-sectors/industry-zone-development.

Points to note:

1/ Land acquisition is often time-consuming and this varies from region to region. Generally, areas around Addis Ababa are more crowded and require minimum investment of up to US$3 million. Investors in processing can target Debre Birhan, Ararti, Butajira, Adama and Fiche which provide viable options all within a 150-km radius of Addis Ababa and good road networks.

2/ Generally, the Ethiopian Government provides sufficient security and legal protection to investors, but having good relations with local communities is an important strategy that provides social protection including from unexpected social unrest and theft.

For a company entirely owned by a foreign investor

- An application form duly filled and signed by the manager or agent of the business organization;
- When an agent is making the application, a photocopy of his/her power of attorney;
- Photocopies of memorandum and articles of association. If it is to be newly established, photocopies of the relevant pages of a valid passport of each shareholder, clearance letter from the Ministry of Trade and Industry for the company name and draft memorandum and articles of association;
- When foreign nationals taken for domestic investors or Ethiopian nationals are among the members of the shareholders, photocopies of certificates evidencing the domestic-investor status of the foreign nationals or identity cards (for companies to be established);
- Three recent passport-sized photographs of the general manager.

Joint investment between domestic and foreign investors

- An application form duly filled and signed by the agent of the business organization;
- Where the application is made by an agent, a photocopy of his power of attorney;
- Photocopies of the memorandum and articles of association. If it is to be newly stablished, photocopies of the pages relevant of a valid passport of each shareholder, and draft memorandum and articles of associations
- Where foreign nationals are considered as domestic investors or Ethiopian nationals are among the members of the shareholders, photocopies of certificates evidencing the domestic-investor status of the foreign nationals or identity cards (for companies to be established);
- Three passport-sized recent photographs of the general manager.

Note: If the foreign partner is a business organization, the following documents are also required:
• A copy of the memorandum and articles of association or equivalent documents of the parent company;
• A photocopy of a document ascertaining the legal personality of the business organization (i.e. registration certificate);
• Minutes of the parent company certified by an authorized body for the establishment of a joint company in Ethiopia, authenticated by the public notary, or a letter written by the owner in case of a one-person company;
• A photocopy of an authenticated power of attorney of the company representative and photo-copies of the relevant pages of the representative's valid passport or identity card, in case the representative is an Ethiopian national.

Checklist for application for an investment license

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Sources of further information

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